



Information Item

Date: March 10, 2010

To: Mayor and City Council
From: Carol Swindell, Director of Finance/City Treasurer
Subject: City Monthly Cash and Investment Report for January 2010

Introduction

In compliance with the City Charter, State law, and the City's Investment Policy, the attached monthly report provides information concerning City investments and cash held and/or managed by the Director of Finance/City Treasurer as of January 31, 2010.

Discussion

The January 2010 Investment Report highlights changes from December. The value of cash and investments held in the pooled portfolio increased by \$0.5 million to \$540.5 million in January. The pooled portfolio yield-to-maturity fell one basis point in January to 1.82%, sixty-four (64) basis points lower than in January 2009. Investment earnings for the month were \$0.7 million. Fiscal year-to-date earnings are down 43.1% from the same period last year.

In addition to the pooled portfolio, the City's total cash holdings as of January 31, 2010 included \$79.7 million in Charnock settlement-related funds, \$8 million in bond proceeds held in trust with fiscal agents, \$9.2 million in other funds held in trust, and \$57,122 in petty cash for a total balance of \$637.5 million.

In compliance with Governmental Accounting Standards, the Monthly Cash and Investment Report provides the fair market value of all investments held by the City, with certain exceptions, as of the last day of the month. The fair market value may be greater or less than the original purchase price (book/reported value) of the investments due to

fluctuations in the market resulting in either an unrealized gain or loss for financial disclosure purposes only. Since it is the City's policy to hold most securities to maturity, these fluctuations in market value do not affect the redemption value of the securities or the overall yield of the portfolio. The book values of investments shown in this report are exclusive of amortization/accretion of premiums/discounts. As of January 31, 2010, the market value of the City's portfolio was approximately \$0.3 million greater than the book value.

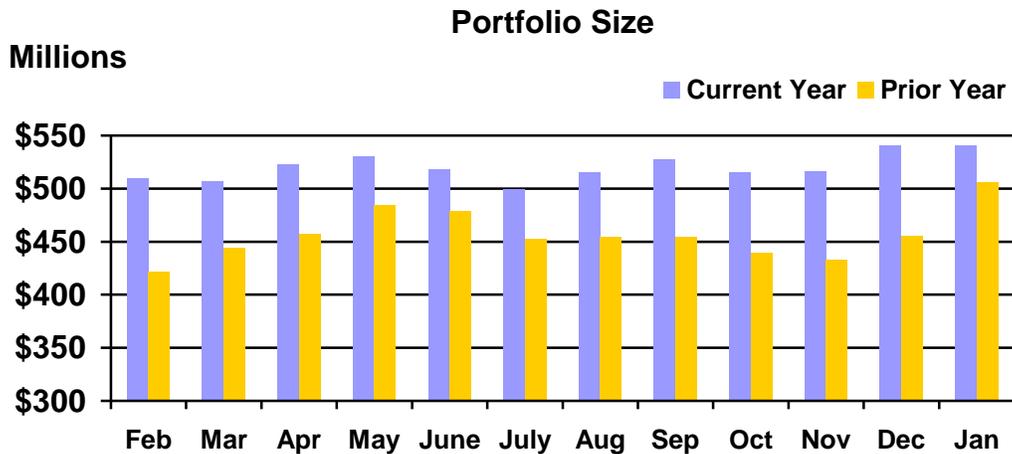
Attached is a summary of investment activity as well as a detailed report of public monies held by the City Treasurer for the month of January 2010.

Prepared by: David Carr, Principal Investment Analyst

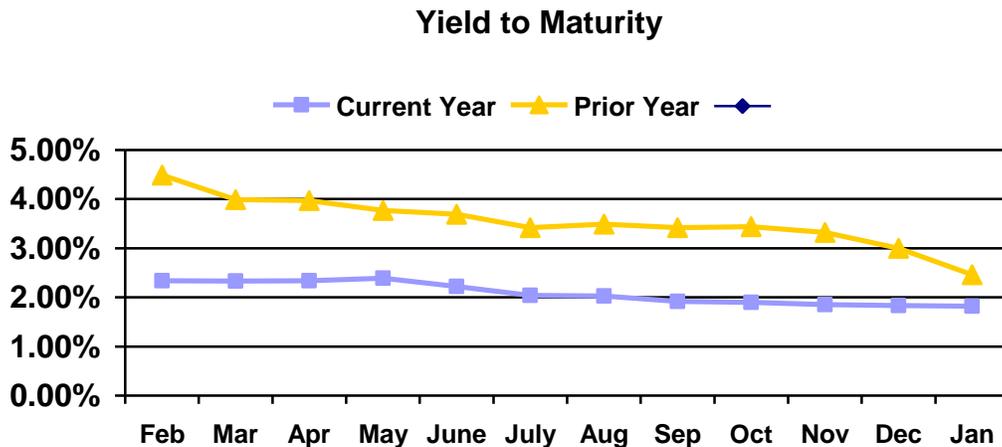
Attachments: 1 – Investment Highlights
2 – Investment Report

Investment Highlights

January 2010

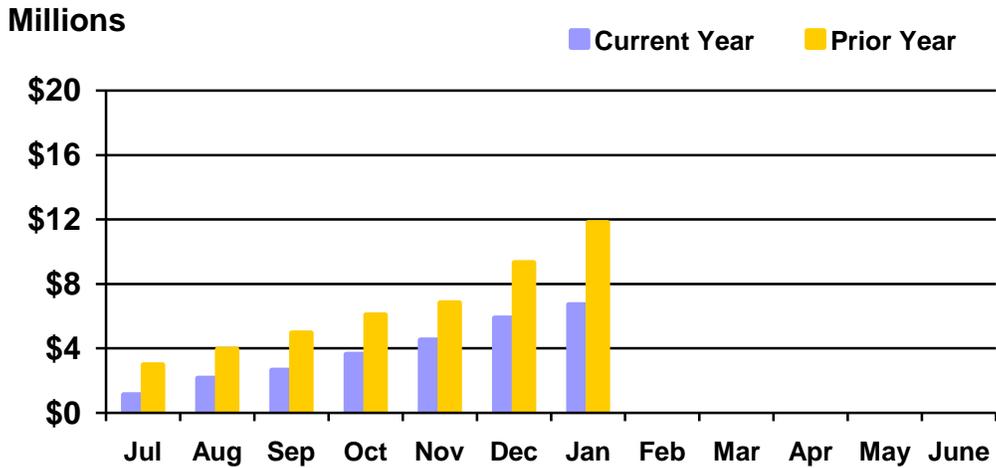


- As of January 31, the portfolio size is \$540.5 million, \$0.5 million greater than in December and \$34.5 million more than in January 2009

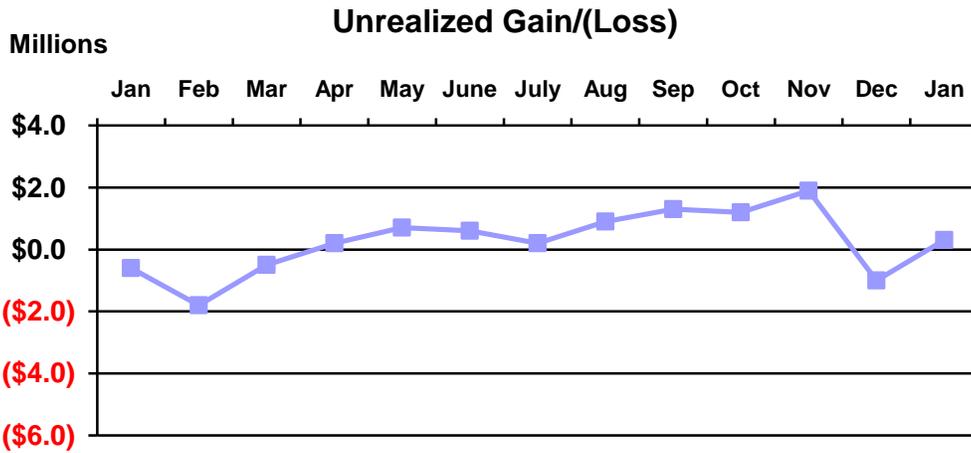


- As of January 31, yield to maturity is 1.82 percent.
- Decrease of one basis point from December and sixty-four basis points from one year earlier.

Fiscal Year-to-Date Interest Earnings (Cumulative by Month)



- Fiscal y-t-d earnings are 43.1% less than the prior year.



- The unrealized gain of \$0.3 million reported as of January 31, 2010 is the difference between market value and the unamortized book value (purchase price).



Investment Report

January 2010

Prepared by:
Carol Swindell, Director of Finance/City Treasurer
David R. Carr, Principal Investment Analyst

**City of Santa Monica
Report of Public Monies Held by the City Treasurer
As of January 31, 2010**

Petty Cash	\$57,122.00
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Pooled Portfolio

Bank of America (1)	
General Account	\$808,915.32
Columbia Money Market Sweep Account	\$6,080,934.42
Total Bank of America	\$6,889,849.74
Bank of New York (BNY)	
Corporate Bonds - FDIC Insured	\$70,937,382.22
Federal Agencies Securities	\$378,392,166.56
Total Bank of New York	\$449,329,548.78
State of California Local Agency Investment Fund - RDA	\$42,580,635.22
State of California Local Agency Investment Fund - City	\$41,749,397.51

Total Pooled Portfolio	\$540,549,431.25
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Restricted Cash/Investments Held in Trust

Bond Proceeds	
Union Bank-Earthquake Recovery Redevelopment 2006	
Tax Allocation Refunding Bonds Series A & B	\$11.48
BNY-Library Improvement Project 2002 Series	\$0.00
BNY-Ocean Park Redevelopment Project 2002 Refunding	\$2,465,171.84
BNY-Parking Authority Lease Revenue Bonds 2002 Refunding	\$2.01
BNY-Public Safety Facility Bonds 1999 Series and 2002 Series	\$1,383,680.02
BNY-Public Safety Facility Bonds 2009 Refunding	\$1,085,769.98
U.S. Bank-Wastewater Enterprise Revenue Bonds-1993 Refunding	\$0.00
U.S. Bank-Wastewater Enterprise Revenue Bonds-2005 Refunding	\$1.00
Union Bank-Civic Center Parking Project 2004 Lease Revenue Bonds	\$3,085,091.67

Total Restricted Cash/Investments Held in Trust	\$8,019,728.00
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Charnock Settlement Funds

Union Bank (December 2006 Settlement)	
Money Market Funds	\$18,700,256.86
Federal Agencies Securities	\$55,840,940.80
Corporate Bonds	\$5,144,450.00
Total Union Bank (December 2006 Settlement)	\$79,685,647.66

Total Charnock Settlement Funds	\$79,685,647.66
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Other Restricted Funds/Funds Held in Trust

Cemetery Perpetual Care Fund (3)	\$7,088,523.42
Mausoleum Perpetual Care Fund (3)	\$747,670.99
HUD Depository Account (4)	\$1,248,548.13
Public Agency Family Self Sufficiency Program (2)	\$145,740.16

Total Other Funds Held in Trust	\$9,230,482.70
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GRAND TOTAL	\$637,542,411.61
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City of Santa Monica
Report of Public Monies Held by the City Treasurer
As of January 31, 2010

- (1) This is the actual bank account balance as of 1/31/10. It only reflects checks and warrants that have been presented for payment and deposits received by the bank. The balance on deposit per the City books would reflect reductions for all checks and warrants issued and an increase for all deposits transmitted. Redevelopment Agency, Housing Authority, and Parking Authority Funds included in totals.
- (2) The City of Santa Monica Housing Authority administers the Family Self Sufficiency Program. An escrow account is set up for each family in the program. The Housing Authority maintains and releases the escrow funds as required by HUD regulations.
- (3) The Cemetery Perpetual Care Funds and the Mausoleum Perpetual Care Funds are held in trust by Charles Schwab & Company, Inc. and administered by the investment firm RNC Genter Capital Management Company. Market value is shown since a large portion of the portfolio is in equities.
- (4) HUD Depository account is used to receive monthly housing assistance payments from HUD.

**City of Santa Monica
Cash Receipts, Disbursements and Cash Balances*
January 31, 2010**

Pursuant to Section 711d of the City Charter, I submit the following:

Cash and Investments - December 31, 2009	539,993,632.25
Receipts	36,922,319.97
Disbursements	(36,366,520.97)
Cash and Investments - January 31, 2010	\$540,549,431.25

* Pooled portfolio only. Excludes certain investments held in trust by third parties such as bond proceeds, perpetual care funds, and Charnock settlement funds.

Carol Swindell
Director of Finance/City Treasurer

Overview

As of January 31, 2010, total City cash and investments were \$637.5 million, an \$8.0 million decrease from December. The decrease is primarily due to less Restricted Cash/Investments held in trust (\$5.2 million) reflecting semi-annual debt service payments and a decrease in Charnock Settlement funds (\$2.5 million) reflecting Water Treatment Facility construction costs. Further details are provided below.

Petty Cash	\$	57,122.00
Pooled Investment Portfolio	\$	540,549,431.25
Restricted Cash/Investment Held in Trust	\$	8,019,728.00
Charnock Settlement Funds	\$	79,685,647.66
Other Funds Held in Trust	\$	9,230,482.70
Total	\$	<u>637,542,411.61</u>

Definitions

- Basis Point – One hundredth of one percent (.01%)
- Book (Reported) Value – The price paid for the security at purchase.
- Bullets – A security with a fixed coupon or interest rate that cannot be redeemed by the issuer before the maturity date.
- Callable Securities – A security that can be redeemed by the issuer before the maturity date.
- Duration – A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a security. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.
- Market Value – The price at which a security is currently trading and could be presumably bought or sold.
- Par Value – The full face value of the security.
- Rebalancing – Strategy whereby low yielding securities are sold at a loss with the proceeds used to purchase higher yielding securities.
- TLGP (Temporary Loan Guarantee Program) – Federal program through which the Federal Deposit Insurance Corporation guarantees repayment of certain bonds issued by financial institutions.
- Unrealized Gain/Loss – Difference between the current market value and purchase price (book value) of a security.

- Yield to Maturity – The rate of return of a security held to maturity when both interest payments and the investor’s gain or loss (premium paid or discount taken) on the security is taken into account.

Pooled Investment Portfolio

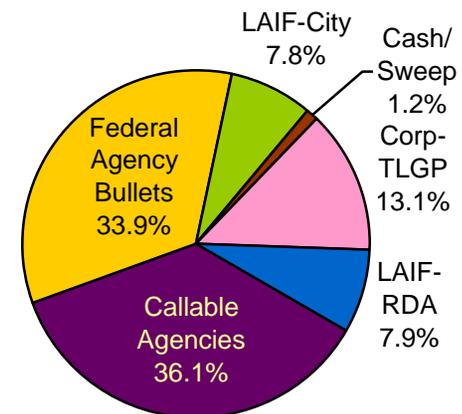
As of January 31, 2010, the portfolio size (unamortized book value/purchase price) of City pooled cash and investments is \$540.5 million, a \$0.5 million increase from December. Since the City holds most investments to maturity, variations in portfolio book value are typically due to receipt and expenditure patterns during the month rather than any realized gains or losses on securities. Additionally, the City does not amortize premiums or accrete discounts except for financial reporting purposes on the last day of each fiscal year. Seven investments were made during the month (\$32 million). One investment matured (\$5.2 million) and four investments were called (\$22 million). No investments were sold. The total City and RDA State Local Agency Investment Fund (LAIF) account balances decreased by \$9.4 million in January. The balance of the sweep account on January 31 was \$6.1 million.

Details of the main portfolio follow.

Portfolio Composition

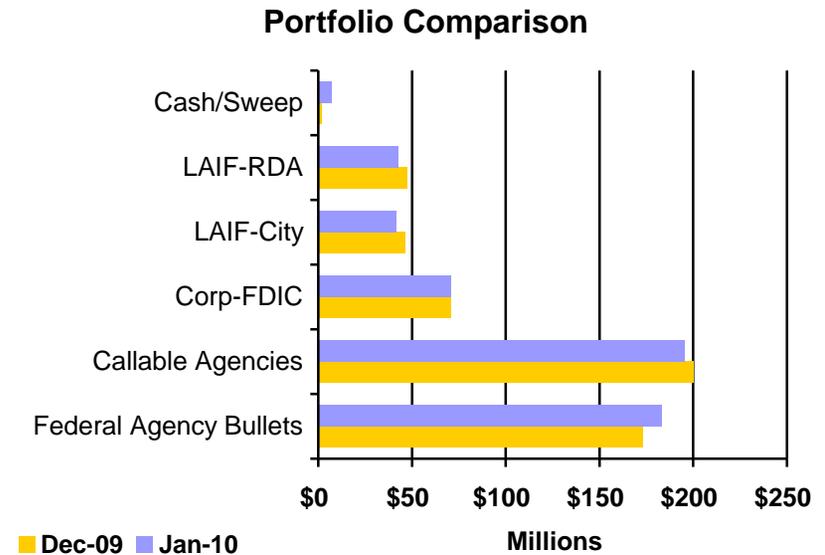
The portfolio is well-diversified and is in compliance with the City’s Investment Policy and applicable provisions of the State Government Code. The largest sector of the portfolio is Federal Agency Securities (70%). The remaining 30% is invested in State Local Agency Investment Fund accounts for the City (7.8%) and the RDA (7.9%); corporate notes (13.1%), all of which are currently FDIC insured bonds (AAA rated) issued under the FDIC’s Temporary Liquidity Guarantee Program (TLGP); and cash including the money market sweep account (1.2%). This portfolio mix allows the City to maintain its primary investment objectives of safety and liquidity while attaining a rate of return consistent with the City’s Investment Policy and Investment Plan.

Portfolio Composition



Portfolio Comparison

The chart to the right shows the overall structure of the portfolio by type of investment compared to last month. There were no significant changes in January. The City continues to hold a significant balance in short term funds as interest rates remain at historic lows, and LAIF provides a significant benefit over other types of investments with maturities one year and earlier. The bond market, financial and economic conditions, and portfolio structure are continuously evaluated when making investment decisions.

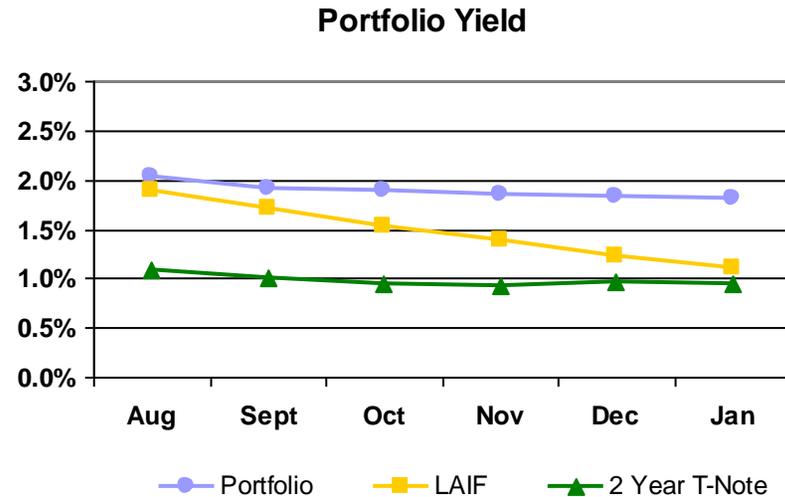


Rebalancing of Portfolio

No portfolio rebalancing occurred in January due to the low interest rate environment. However, when rates begin to rise again, rebalancing opportunities will be evaluated.

Portfolio Yield

The portfolio yield-to-maturity was 1.82% as of January 31, 2010, down one (1) basis point from December and sixty-four (64) basis points from January 2009. This is the eighth consecutive month of decrease reflecting the continuing record low interest rate environment. This month's yield is three hundred twenty-eight (328) basis points below the high mark of 5.1% in September 2007, and is the lowest in over six years (December 2003). The chart compares the month-end portfolio yield to the twelve-month moving averages of the two-year Constant Maturing Treasury security yield (CMT) and State Local Agency Investment Fund (LAIF) yield.



Interest rates remain very volatile, even at the current low levels. Rates in the one to five year maturity fell sharply in January after spiking up in December. The month-end two year CMT decreased by thirty two basis points in January after jumping by forty-seven basis points in December. The continued volatility and low rates reflect uncertainty regarding the strength of the economic recovery. The January month-end CMT is twelve basis points less than one year ago. The twelve month moving average of the CMT fell by two basis points during the month and is three hundred eighty-eight (388) basis points off its February 2007 high. Rates are expected to remain relatively low through the first part of 2010. LAIF rates also continue to reflect the low interest rate environment. The twelve month moving average LAIF yield decreased by twelve (12) basis points to 1.11% in January and has now declined for twenty-seven consecutive months. As of month-end January, the LAIF yield hit a record low of 0.56%.

At its December meeting, the Federal Open Market Committee (Fed) left the target Fed Funds rate unchanged at a range of 0% to 0.25%. The Fed noted that although the economy continues to strengthen, short term rates could remain at low levels for a period of time. The economy showed strong growth in the fourth quarter for the second quarter in a row. The housing market appears to have bottomed out, the stock market has rebounded strongly from March 2009 lows, and many corporations' earnings have been better than expected. Consumer spending has also picked up. However, unemployment remains very high, job creation has not yet begun, and recent consumer confidence numbers showed an unexpected drop. The commercial real estate market also continues to be a major concern. Most economists now expect mild economic growth

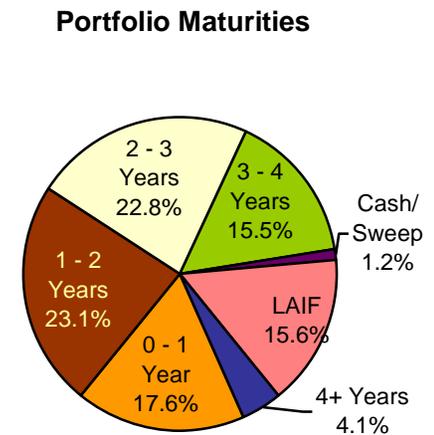
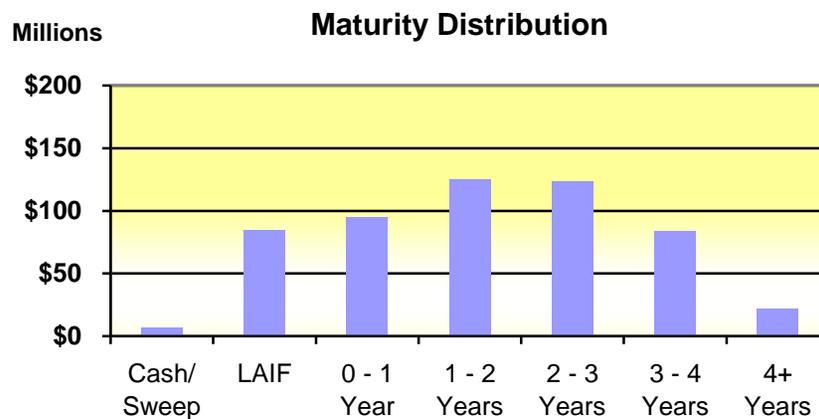
in 2010 and 2011. However, some have recently said there is a chance that the economy will again fall into recession in the second half of 2010.

The City’s portfolio yield-to-maturity has decreased significantly over the last year as interest rates have reached historic lows resulting in many investments being called and reinvested at lower rates. Overall, the yield is not anticipated to change significantly over the next few months, but the market continues to be volatile, so yields could vary on a month-to-month basis. Over \$500 million in bonds were called between October 2007 and the end of January 2009 as compared to about \$70 million in the prior two years. As noted, more bonds will be called in the next two to three months as interest rates are expected to remain very low, but the volume of called investments should decrease after that as many of the higher yielding investments have already been called, matured, or in the case of corporate securities, sold.

Investment earnings in December were \$0.8 million. Fiscal year-to-date earnings are 43.1% less than for the same period last fiscal year.

Maturity Distribution

The weighted average days to maturity as of January 31, 2010 is 626 days (1.72 years), 5 days less than the prior month. Due to the current volatile and low interest rate environment, bonds continue to be called, and the portfolio’s average days to maturity may vary over the next several months. Additionally, most investments are being made primarily in maturities of three years or less until there is a clear indication that interest rates have bottomed out.



Unrealized Gains/Losses

The Governmental Accounting Standards Board Statement No. 31 (GASB 31) requires public agencies to report all investments, with certain exceptions, at current fair market value rather than at the original purchase price. Current fair market value is defined in GASB 31 as “the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation state.”

The current fair market value and unrealized gain/loss of a security do not affect its redemption value or yield, if held to maturity. There is an inverse relationship between the price of the bond and the market interest rate. The City’s practice is to hold most securities to maturity. Book value and market values are exclusive of interest realized to date on investments. Also, the book value shown is the purchase price and is exclusive of any amortization of premiums or accretion of discounts. As of January 31, 2010, the market value and the book value of the City’s pooled investments (excluding cash) are:

Market Value	\$	539,999,519.97
Book Value (purchase price)		539,740,515.93
Unrealized Gain/(Loss)	\$	259,004.04

Charnock Settlement

All remaining restricted settlement funds are now held in an escrow account with Union Bank to be used to pay for the costs of design, construction, and operation of the water treatment facility at the Charnock Wells. These funds are invested under the same guidelines as the pooled portfolio with maturity dates to match the estimated cash flow needs of the Water Treatment Facility project. In accordance with the December 2006 settlement agreement, investment income earned in the escrow account is not restricted for use on the project. In August 2009, all investment income earned from date of account opening (December 2006) through July 2009 were transferred to the City (approximately \$9.7 million) and interest is now being transferred on a monthly basis. Funds remaining in the account (approximately \$80 million) should be sufficient to cover all costs related to construction and operation of the facility. The yield to maturity on these funds as of January 31, 2010 is 1.53%, twelve (12) basis points less than the prior month.

On January 31, 2010, the portfolio showed an unrealized loss of \$193,162.05. The weighted average days-to-maturity was 287 days (0.79 years).

Compliance

California State law and the City's Investment Policy set certain legal standards for allowable investments that can be included in the City's portfolio. Additionally, there are certain maximum limits for classes of investments, as well as minimum credit quality requirements. In testing for compliance, the City considers all funds under the direct control and invested directly by the City including the pooled portfolio and the Water Treatment Facility account. Bond proceeds and the Cemetery and Mausoleum Perpetual Care Funds are excluded.

The tables below summarize portfolio compliance as of January 31, 2010 all investments were in compliance with State law and the City's Investment Policy at the time of purchase. State law requires that any investment subject to a credit downgrade subsequent to the time of purchase shall be reviewed for possible sale within a reasonable amount of time after the downgrade. As of the date of this report, the portfolio includes no bonds that have been downgraded since the time of purchase and all remaining corporate bonds are FDIC insured and rated AAA.

Further detail regarding City compliance with State law and City investment guidelines is presented as follows:

Portfolio Allocation as of 1/31/10

	Pooled Portfolio	SM Water Treatment Facility Account (1)	Total Portfolio (2) (4)	% of Portfolio	Legal/Policy Limit	In Compliance (Yes/No)
Federal Agency Securities						
Federal Home Loan Bank	\$163,171,433.55	\$20,866,157.84	\$184,037,591.39	29.7%	50.0%	Yes
Federal National Mortgage Association	75,150,689.72	10,011,080.00	85,161,769.72	13.7%	50.0%	Yes
Federal Home Loan Mortgage Corporation	87,379,720.00	24,963,702.96	112,343,422.96	18.1%	50.0%	Yes
Federal Farm Credit Bank	52,690,323.29	0.00	52,690,323.29	8.5%	50.0%	Yes
Total Federal Agency Securities	\$378,392,166.56	55,840,940.80	434,233,107.36	70.0%	n/a	Yes
Corporate Bonds						
Corporate Bonds - TGLP (FDIC Insured)	\$70,937,382.22	\$5,144,450.00	76,081,832.22			
Corporate Bonds - Other	\$0.00		0.00			
Total Corporate Bonds	\$70,937,382.22	\$5,144,450.00	\$76,081,832.22	12.3%	30.0%	Yes
Money Market Mutual Funds						
Columbia Money Market Reserves Advisor Class	6,080,934.42		6,080,934.42	1.0%	10.0%	Yes
BlackrockT-Find Cash Management Sweep		18,700,256.86	18,700,256.86	3.0%	10.0%	Yes
Total-Money Market Mutual Funds	\$6,080,934.42	\$18,700,256.86	\$24,781,191.28	4.0%	20.0%	Yes
State Local Agency Investment Fund-City	\$41,749,397.51		\$41,749,397.51	6.7%	\$50 million	Yes
State Local Agency Investment Fund-RDA	\$42,580,635.22		\$42,580,635.22	6.9%	\$50 million	Yes
Cash (3)	808,915.32		808,915.32	0.1%	None	Yes
Total (Book Value)	\$540,549,431.25	\$79,685,647.66	\$620,235,078.91	100.00%		

Notes:

- (1) Held by Union Bank
- (2) Excludes bond proceeds, funds held in trust for others, petty cash accounts, and other funds which are not entirely under City ownership and control
- (3) City's general bank account held at Bank of America.
- (4) Value used to test compliance is reported value (book value plus unrealized purchased interest).

Credit Ratings - Corporate Medium Term Notes

	Standard & Poors/		In Compliance (Yes/No)
	Fitch	Moodys	
Best Quality	AAA	Aaa	Yes
	AA+	Aa1	Yes
High Quality	AA	Aa2	Yes
	AA-	Aa3	Yes
	A+	A1	Yes
Upper Medium Grade	A	A2	Yes
	A-	A3	Yes
	BBB+	Baa1	No
Medium Grade	BBB	Baa2	No
	BBB-	Baa3	No

City Portfolio as of 1/31/2010 (Book Value)

Security	Pooled Portfolio	MTBE Custodial Account	SM Water Treatment Facility Account	Total Portfolio	Credit Rating*	In Compliance (Yes/No)
Corporate - TLGP (FDIC Guaranteed)						
Bank of America 3.125% (TLGP) 6/15/2012	\$5,199,100.00			\$5,199,100.00	AAA	Yes
Suntrust Bank 3% (TLGP) maturing 11/16/11	\$5,153,450.00			\$5,153,450.00	AAA	Yes
Goldman Sachs 3.25% (TLGP) 6/15/2012	\$5,206,850.00			\$5,206,850.00	AAA	Yes
Goldman Sachs 1.625% (TLGP) 7/15/11	\$5,030,000.00			\$5,030,000.00	AAA	Yes
HSBC 3.125% (TLGP) maturing 12/16/11	\$5,151,350.00			\$5,151,350.00	AAA	Yes
JP Morgan Chase 2.625% (TLGP) maturing 12/1/10	\$5,088,900.00			\$5,088,900.00	AAA	Yes
JP Morgan Chase 2.125% (TLGP) maturing 12/26/12	\$4,993,850.00			\$4,993,850.00	AAA	Yes
Wells Fargo Bank 3% (TLGP) maturing 1/12/11	\$4,994,150.00			\$4,994,150.00	AAA	Yes
Morgan Stanley 1.95% (TLGP) maturing 6/20/12	\$4,998,450.00			\$4,998,450.00	AAA	Yes
Morgan Stanley 2.9% (TLGP) maturing 12/01/10			\$5,144,450.00	\$5,144,450.00	AAA	Yes
Morgan Stanley 2% (TLGP) maturing 9/22/11	\$5,090,200.00			\$5,090,200.00	AAA	Yes
U.S. Bank 2.25% (TLGP) maturing 3/13/12	\$4,999,400.00			\$4,999,400.00	AAA	Yes
Citigroup 2.125% (TLGP) maturing 7/12/12	\$2,015,520.00			\$2,015,520.00	AAA	Yes
Citigroup 1.5% (TLGP) maturing 7/12/11	\$5,010,400.00			\$5,010,400.00	AAA	Yes
Citigroup 1.875% (TLGP) maturing 10/22/12	\$3,013,971.25			\$3,013,971.25	AAA	Yes
Citigroup 1.375% (TLGP) maturing 8/10/11	\$4,991,790.97			\$4,991,790.97	AAA	Yes

Certification

In compliance with California Government Code Section 53546 as amended January 1, 1996, I hereby certify that sufficient investment liquidity and anticipated revenues are available to meet the City's budgeted expenditure requirements for the next six months.

Carol Swindell, Director of Finance/City Treasurer